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STRONG FUNDAMENTALS

THE CHURCHILL CORPORATION | ANNUAL REPORT 2002

CORPORATE PROFILE

The Churchill Corporation provides services to the industrial construction, industrial maintenance and building construction markets through operating subsidiaries:

- industrial electrical, instrumentation and power-line construction and maintenance services (Laird Electric)
- industrial insulation, maintenance and related services (Fuller Austin Insulation and Northern Industrial Insulation)
- heavy-industrial general contracting, fabrication and maintenance services (Triton Projects)
- building construction services (Stuart Olson Construction)

Churchill is based in Edmonton, Alberta and active throughout Western Canada, northwestern Ontario and the Northwest Territories.

Churchill shares trade on the Toronto Stock Exchange under the symbol CUQ.

Churchill's mission is to maximize client value in the construction, maintenance and industrial service delivery process by working closely with our clients to profitably deliver services that exceed their expectations. Churchill's strategic vision is to build a highly profitable, diversified and sustainable construction and industrial services business.

Churchill's strong fundamentals – including our established reputation in the active markets of Western Canada, proven management, solid balance sheet and record year-end level of work in hand – position the Corporation to resume its long-term record of growth in revenue, earnings and shareholder value.

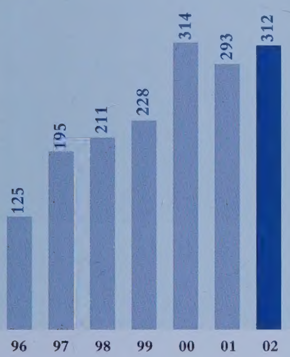
CONTENTS

cover background **Southern Alberta Institute of Technology** - Calgary, AB - $75 million - Stuart Olson
cover *top centre* **TransCanada Energy Ltd. (subsidiary of TransCanada PipeLines Limited)** - near Grande Prairie, AB - $3 million - Triton Projects
cover *bottom left* **Syncrude Canada Ltd.** - Fort McMurray, AB - $9 million - Fuller Austin Insulation
cover *bottom right* **Nexen Inc.** - near Anzac, AB - Triton Projects

FINANCIAL HIGHLIGHTS

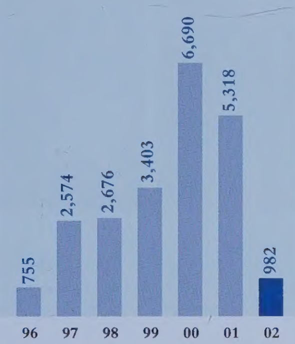
REVENUE
($ MILLIONS)

Revenue growth of 16% per year since 1996



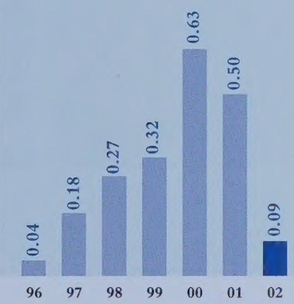
NET EARNINGS
($ THOUSANDS)

Profitable in each of the last seven years



EARNINGS PER SHARE
($ BASIC)

Positive earnings per share in each of the last seven years

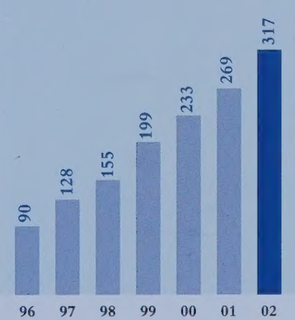


BOOK VALUE PER COMMON SHARE
($)

Book value per share growth of 75% per year since 1996

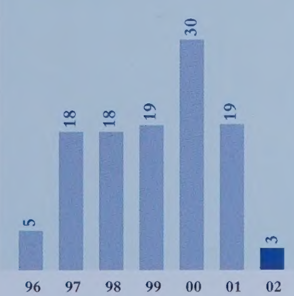
WORK IN HAND
($ MILLIONS)

Year-end work in hand has increased at a 23% annual rate since 1996 to a record $317 million

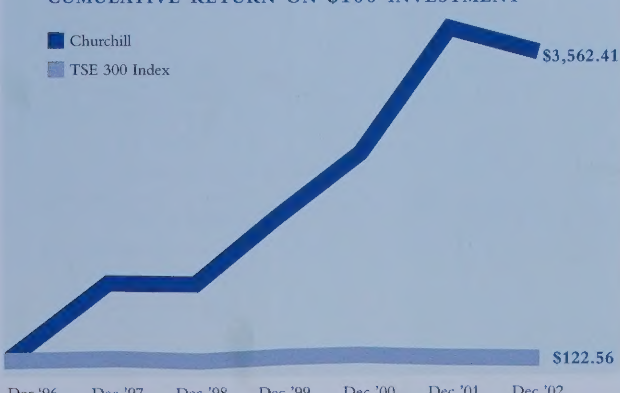


RETURN ON AVERAGE SHAREHOLDERS' INVESTMENT
(%)

A top-quartile return on shareholders' equity was sustained for five years through 2001



CUMULATIVE RETURN ON $100 INVESTMENT



Churchill delivered a 35-fold (3,562%) return to our shareholders over the last six years, an average annual return of 81%.

Churchill delivered the third highest return of the entire Toronto Stock Exchange 1000 during the five-year period to December 31, 2001.

CHURCHILL AT A GLANCE

INDUSTRIAL CONSTRUCTION AND MAINTENANCE

LAIRD ELECTRIC

BUSINESS

- *Industrial and commercial electrical, instrumentation and power-line construction and maintenance*
- *2002 revenue of $52 million (acquired by Churchill in February 2003)*

MARKET FOCUS

- *Resource and industrial sectors: oil sands, other oil and gas, petrochemical*

COMPETITIVE POSITION

- *One of the largest electrical contractors in the active Fort McMurray oil sands sector; expanding operations in the Edmonton area*
- *Provides a wider range of complementary services than competitors*
- *Generates a significant portion of revenue from maintenance services*
- *Established in 1962*

FULLER AUSTIN AND NORTHERN INDUSTRIAL

BUSINESS

- *Thermal insulation, fireproofing, fire stopping, siding, asbestos abatement and plant maintenance*
- *2002 revenue of $44 million (14% of Churchill revenue)*

MARKET FOCUS

- *Resource and industrial sectors: oil and gas, petrochemical, forest products, pipelines, utilities, mining*

COMPETITIVE POSITION

- *Second largest industrial insulation contractor in Western Canada*
- *Offices in Edmonton, Calgary, Bonnyville and Fort McMurray, Alberta, Regina, Saskatchewan and Thunder Bay, Ontario*
- *Provide a wider range of complementary services than competitors*
- *Client trend to outsource insulation and maintenance services*
- *Fuller Austin was established in 1961*

TRITON PROJECTS

BUSINESS

- *Heavy-industrial general contracting, fabrication and maintenance*
- *2002 revenue of $44 million (14% of Churchill revenue)*

MARKET FOCUS

- *Resource and industrial sectors: oil and gas, petrochemical, power, mining, forest products*

COMPETITIVE POSITION

- *One of the largest open-shop heavy-industrial general contractors in Western Canada*
- *Offices in Edmonton, Calgary, Bonnyville and Fort McMurray, Alberta*
- *Strong position in natural gas and heavy oil, sectors favoured by current economics*
- *Established in 1953*

BUILDING CONSTRUCTION

STUART OLSON

BUSINESS

- *Building construction: construction management, design-build and general contracting*
- *2002 revenue of $224 million (72% of Churchill revenue)*

MARKET FOCUS

- *Private and public sectors*
- *Institutional, commercial and light-industrial markets*
- *Particular expertise in healthcare, high technology, hotels, retail, food processing and distribution, recreational, educational facilities*

COMPETITIVE POSITION

- *One of the three largest building contractors in Western Canada*
- *Major offices in Calgary and Edmonton, Alberta and Vancouver, British Columbia; active throughout Western Canada and the Northwest Territories*
- *An industry leader in construction management and design-build*
- *Experience and financial strength to do large projects*
- *Established in 1939*

2002 GOAL ACHIEVEMENTS

GOAL	RESULT	ACHIEVEMENT
Sustain strong financial performance, including top-quartile return on shareholders' equity	*no*	• Net earnings of $1.0 million
	no	• Return on shareholders' equity of 3%
Achieve revenue in excess of $325 million	*no*	• Revenue of $312 million
Invest in organizational capacity to sustain growth	*yes*	• Completed executive management succession
	yes	• Recruited key personnel
Accelerate growth of our industrial business	*yes*	• Fuller Austin and Northern Industrial revenue increased 42%
	no	• Triton revenue decreased 21%
	yes	• Acquired Lakehead Insulation in January 2002
	yes	• Negotiated acquisition of Laird Electric, which closed in February 2003
Extend our range of services, clients and geographic regions	*yes*	• Acquisition of Lakehead Insulation extended industrial insulation business into northwestern Ontario
	yes	• Acquisition of Laird Electric added electrical, instrumentation and power-line construction and maintenance services; and strengthened position in the Fort McMurray regional market
	yes	• Projects awarded to new Stuart Olson branches in Lethbridge and Victoria; major projects in Inuvik, Northwest Territories and Portage la Prairie, Manitoba extended geographic market
Build work in hand to support continued growth in 2003	*yes*	• Record year-end work in hand of $317 million
Maintain a safety record better than our industry peers	*yes*	• All operating companies maintained a long-term safety record better than our industry peers
Deliver a top-quartile rate of appreciation to our shareholders	*no*	• Share price declined 8%, compared to a 12% decline in the Toronto Stock Exchange 300 Index

REPORT TO SHAREHOLDERS

Although our financial performance fell short of expectations, Churchill continued to make important strategic and operational progress in 2002. We have taken appropriate measures to address the issues that contributed to our weak financial performance last year and position Churchill to deliver improved results in 2003 and beyond.

KEY RESULTS OF 2002

- Revenue was $312 million, up $19 million from $293 million in 2001
- Net earnings were $1.0 million ($0.09 per share), compared with $5.3 million ($0.50 per share) in 2001
- Return on shareholders' equity was 3%, compared to 19% in 2001; 2002 was the first year in the past six years Churchill did not achieve top-quartile return on shareholders' equity
- Work in hand increased to a year-end record $317 million, up $48 million, or 18%, from $269 million at the end of 2001
- Share price declined 8%, compared to a 12% decline in the Toronto Stock Exchange 300 Index
- Acquired Lakehead Insulation in January 2002
- Negotiated the acquisition of Laird Electric, which closed in early 2003

CONTRIBUTING FACTORS

There were several factors that contributed to our disappointing performance in 2002:

Triton Projects

Triton Projects incurred a significant loss from construction operations of $1,053,000 in 2002, compared to earnings from construction operations of $4,156,000 in 2001. This was the first major loss in Triton's 50-year history. This loss was primarily due to poor implementation of our growth strategy, weak execution on certain projects and a slow and highly competitive market environment. These factors resulted in a lack of bidding success, reduced project margins and increased people and infrastructure related costs. In October 2002, Bruce Rintoul, MBA, P.Eng., Vice President Industrial of Churchill, assumed the additional role of President of Triton Projects. Under his leadership, Triton has progressed in restructuring its operations and refocusing its efforts to return to profitability by late 2003.

Investments in Growth

We invested heavily in our plan to increase capacity for long-term growth by building organizational depth, including a 9% increase in full-time salaried personnel. We also broadened the scope of our service offering and entered new geographic markets. These necessary investments in our capacity will yield future benefits, but eroded our 2002 results.

Market Conditions

A significant number of Stuart Olson and Fuller Austin projects expected to generate revenue in 2002 were delayed for a range of client-related issues. Other contractors experienced similar project delays, which resulted in a more competitive market than in the past. We also experienced a softer market in British Columbia than had been anticipated.

The combination of slow industrial markets, increased competition and project execution challenges contributed to lower margins in 2002. We have taken appropriate steps to improve our operations and to focus on market segments and projects that are economically attractive.

Fuller Austin acquisition of Lakehead Insulation broadened services and extended geographic market - new boiler house - northwestern Ontario - $6 million

JTB Canadian Pork

In February 2002, Stuart Olson suspended work on a contract to build the JTB Canadian Pork plant pending client financing to complete the project. A bad debt allowance was established in Churchill's 2001 financial statements. JTB was placed in receivership in September 2002. In February 2003, the receiver-manager accepted a $5,500,000 offer for the JTB assets, which included a $500,000 non-refundable deposit received in February and an anticipated closing date in March 2003. The purchaser made a further $250,000 non-refundable deposit in March to extend the closing date to April, and has the right to make a further $250,000 non-refundable deposit in April to extend the closing date to late May 2003. Stuart Olson has agreed to convert $2,000,000 of its amount receivable into secured financing to the purchaser for a one-year term. There is no assurance this proposed sale will close. Should this sale close, the bad debt allowance established in our 2001 financial statements is expected to be adequate, but it is not yet possible to determine if any recovery will be achieved. JTB was a major distraction of management time and effort throughout 2002 and significant costs were incurred.

STRONG FUNDAMENTALS

We have the fundamental strengths and underlying resources to resume our long-term record of positive performance:

- We have a well-conceived strategy and progressed in its implementation in 2002
- We completed two strategic acquisitions that are expected to make a positive financial contribution
- We completed an orderly succession process and added key people to our management team in 2002
- Our operations are well-positioned in Alberta, where the economic outlook is strong
- Our work in hand was a year-end record $317 million on December 31, 2002
- We are in a strong financial position, with shareholders' equity of $32 million, working capital of $21 million and no net debt on December 31, 2002

STRATEGY – SUSTAINABILITY, BALANCE, DIVERSITY

Our goal remains to build a highly profitable and sustainable $500 million construction, maintenance and industrial services company by 2005. Our strategy remains unchanged.

Key elements of our strategy include:

- Providing superior value and quality to our clients by consistently delivering high levels of service, cost effectiveness and innovation
- Improving the financial performance of our current business through strong project execution
- Emphasizing alternative methods of delivering projects to increase client value and enhance our competitive position. This includes Stuart Olson selectively pursuing Public Private Partnerships ("P3") to participate in infrastructure-related opportunities
- Increasing the diversity of industries, clients and geographic markets we serve and the services we provide to take advantage of market opportunities and enhance the sustainability of our business
- Pursuing markets with higher operating margins and lower capital requirements to achieve high returns on invested capital
- Enhancing our position in the large project markets to build work in hand and to improve the consistency of our revenue

Module fabrication for the heavy oil sector - Nexen Inc. - near Anzac, AB - Triton Projects

Laird acquisition strengthens position in the oil sands market; one of the largest electrical contractors in the Fort McMurray region.

- Expanding our base of recurring revenue from industrial maintenance activities to enhance the sustainability and predictability of our business. Maintenance services also build strong client relationships to support our participation in capital projects
- Pursuing acquisitions primarily in the industrial sector to achieve a balance between building construction and industrial construction, maintenance and service activities
- Maintaining a balanced capital structure with long-term debt of less than 60% of shareholders' equity

IMPLEMENTATION OF STRATEGY

We made significant progress in implementing our strategy:

Acquisition of Lakehead Insulation and Laird Electric

We completed two acquisitions that fit well with our strategy and are expected to make a strong financial contribution.

Fuller Austin acquired Lakehead Insulation of Thunder Bay, Ontario in January 2002. Lakehead provides industrial insulation, asbestos abatement and maintenance services throughout northwestern Ontario, primarily to the forest products industry. Lakehead has developed strong client relationships during the 51 years it has been in business. A significant portion of Lakehead revenue is generated on a recurring basis by providing maintenance services. This acquisition extended Fuller Austin's geographic market and enabled Lakehead to provide a wider range of complementary services to its clients. The combination of Lakehead's client relationships and the organizational depth of Fuller Austin enabled us to procure two large projects during the last several months. Lakehead represents a platform for our other industrial operations to enter the Ontario market.

Churchill negotiated the acquisition of Laird Electric of Fort McMurray and Edmonton, Alberta in 2002, and the transaction closed in early 2003. Laird provides electrical, instrumentation and power-line construction and maintenance services. Laird has been in business 41 years. It has established strong long-term relationships with Suncor Energy, Syncrude Canada, TransAlta Energy and other clients in the Fort McMurray and Edmonton regions. The Company generates 25% to 50% of its revenue by providing maintenance services. Laird has a history of significant growth in revenue and earnings and achieved record revenue of $52 million during 2002. Key members of the Laird management team remain with the Company in their previous roles. With Laird's strong management, long-term client relationships and recurring revenue base, it is an excellent fit with our strategy to grow and enhance the sustainability of our business. Laird complements our other operations, in particular its ability to work with Fuller Austin to provide a combination of electrical heat tracing and insulation services. We expect Laird will make a significant contribution to Churchill in 2003 and beyond.

New branch strengthens position in Southern Alberta - Lethbridge Community College - $9 million - Stuart Olson

Module Project

Triton Projects secured its first module yard-fabrication and related module field-installation project in the heavy oil sector for Nexen in 2002. We are placing increased emphasis on utilizing our structural steel, small bore pipe and module fabrication capabilities in Bonnyville, Alberta.

Large Projects

Stuart Olson was active on six of the largest projects in its 63-year history. Our proven capability to complete larger projects, combined with our financial strength, enables us to pursue more of these opportunities. Large projects enhance the predictability and sustainability of revenue and earnings, but often take longer to start generating revenue due to extended lead times.

Geographic Expansion

Stuart Olson's new offices in Lethbridge, Alberta and Victoria, British Columbia were both awarded new projects. Our increased local presence enhanced our ability to serve clients in these diversified and growing markets. Vancouver Island is experiencing significant population growth, which is increasing the requirement for public sector and commercial facilities. Stuart Olson has completed ten projects with an aggregate value of $105 million in the Lethbridge region during the last four years, primarily in the healthcare, seniors' care, food-processing and education sectors. The agri-food sector has good growth potential in southern Alberta.

Alliances

Stuart Olson continues to work effectively in alliance relationships with other construction companies having complementary experience and resources to undertake challenging projects. Stuart Olson has substantially completed the $40 million Health and Social Services Centre in Inuvik, Northwest Territories in alliance with a northern contractor and local First Nations organizations. Stuart Olson is nearing completion of a $50 million potato-processing plant in Portage la Prairie, Manitoba in alliance with a U.S.-based contractor that has a strong relationship with the client.

MANAGEMENT SUCCESSION

Churchill completed an orderly succession process in 2002, putting in place a new generation of management to lead the Corporation. In May, Churchill announced that Hank Reid, MBA, P.Eng., who joined Churchill as President and Chief Executive Officer in 1990, would retire in March 2003. In order to ensure an orderly transition, Hank will remain a member of the Churchill Board of Directors.

Gary Bardell, M.Sc., MBA, P.Eng., succeeded Hank Reid as President and Chief Executive Officer. Gary joined Stuart Olson in 1979 and progressed through positions of increasing responsibility in operations, business development and general management to become President and Chief Operating Officer in 1997. Stuart Olson revenue has since increased 230% under his leadership, with a focus on larger projects, alternative methods of project delivery and alliance relationships. Gary has served as volunteer Chairman of the Alberta Construction Association and a Director of the Canadian Construction Association. Gary has been a member of the Churchill Management Committee for five years, which provided him a broad perspective on all aspects of our business, strategy and function as a public company. His mandate is to aggressively implement Churchill's strategy, which remains unchanged.

Ian Morris, CA, CBV, joined Churchill as Vice President Finance and Chief Financial Officer to succeed Terry Dunnigan, CA, who retired. Ian has a breadth of senior business experience and proven background in corporate accounting, management information systems, treasury, tax and acquisitions. Prior to joining Churchill, Ian was Senior Vice President and Chief Financial Officer of a major international oilfield services company. He also served as Senior Vice President and Chief Financial Officer of a leading publicly traded merchant bank.

Al Stowkowy, B.Sc., P.Eng., succeeded Gary Bardell as President and Chief Operating Officer of Stuart Olson. Al joined Stuart Olson in 1985 and progressed through positions of increasing responsibility in Edmonton, Vancouver and Calgary to become Senior Vice President in 1997. In his previous role, Al was responsible for all Stuart Olson activity in Alberta, Saskatchewan, Manitoba and the Northwest Territories. Don Goedbloed, ing, was promoted to Executive Vice President of Stuart Olson. Don has been with Stuart Olson for 33 years, most recently as Senior Vice President, British Columbia. Paul Polson, FRAIC, MAAA, was promoted to Vice President, Southern Alberta. Paul previously held the position of Vice President, Project Development.

Gary Bardell and Kim McInnes of Toronto joined our Board of Directors. Mr. McInnes, B.A., M.U.D., is Executive Vice President and Chief Operating Officer of Ivanhoe Cambridge and previously was a senior executive with other major real estate development and management companies.

Dr. Peter F. Adams, Ph.D., P.Eng., succeeded long-serving Stanton K. Hooper as Chairman of the Board of Directors in May 2002. Dr. Adams has served as a Director since 1993. He is currently President and Managing Director of the Canadian Petroleum Institute. Dr. Adams was Dean of Engineering of the University of Alberta, President of the Technical University of Nova Scotia and President of the Centre for Frontier Engineering Research.

Churchill has greatly benefited from the talent, effort and contribution of Hank Reid, Terry Dunnigan and Stan Hooper. Hank, Terry and Stan worked for many years to restructure Churchill's financial position, focus our activities on the construction and industrial services industry and position our operations for success.

Strength in food processing; extending geographic market - Potato processing plant for Simplot Canada Inc. - Portage la Prairie, MB - $50 million alliance - Stuart Olson

Large projects add sustainability - Alberta Hospital Ponoka - Ponoka, $80 million - Stuart Olson

Robert (Bob) Brawn, who has served as a Director since 1993, and Bud Kushnir, who has served as a Director since 1995, are not standing for re-election. Bob and Bud have also made significant contributions to the Corporation, for which we are grateful.

MARKET ENVIRONMENT

The outlook for our markets continues generally favourable for 2003. While we serve markets throughout Western Canada, northwestern Ontario and the Northwest Territories, 65% to 75% of our revenue is generated in Alberta. The strong fiscal position, lower tax rates and population growth in Alberta cause the provincial economy to remain strong. Population growth has stimulated demand for public sector investment in education, healthcare and recreation facilities. Alberta's diversified economy and continued strength of capital investment in the oil sands, conventional oil and gas, manufacturing and public sector infrastructure should cause Alberta to remain one of the best markets for construction in North America.

Our confidence in Alberta's strong economic outlook is consistent with the following:

- A December 31, 2002 Alberta Economic Development inventory of major projects outlines $89 billion of projects underway or planned during the next three years. These projects are almost entirely in sectors in which our operations are well established. Of this $89 billion:
  - $64 billion is in the oil sands, oil, gas and power sectors of the industrial market. More than $40 billion of this planned investment is in the oil sands market in the Fort McMurray region, a market on which we are focusing. This ongoing long-term investment in the oil sands is less sensitive to short-term energy pricing and, as a result, provides resilience to our Alberta markets.
  - $16 billion is in the commercial, infrastructure and institutional segments of Stuart Olson's market.
- Current oil and gas prices have supported strong producer cash flow and stimulated drilling activity, which supports future demand for our industrial activities. The Canadian Association of Oilwell Drilling Contractors forecasts 17,500 wells will be drilled in Western Canada in 2003, 20% more than in 2002 and only 2% below the record 17,933 wells drilled in 2001.
- BMO Nesbitt Burns forecasts Alberta will trail only Newfoundland in real Gross Domestic Product growth again in 2003 at 4.1%, while British Columbia is projected to grow 3.0%, compared to 3.1% for all of Canada.
- The Canadian Construction Association forecasts construction Gross Domestic Product growth of 2.3% in Alberta and 6.6% in British Columbia in 2003.

In summary, we believe Alberta will continue to be one of the strongest markets in North America for the next several years. The market in British Columbia is expected to improve in late 2003.

OBJECTIVES FOR 2003

- Resume our long-term record of strong financial performance
- Achieve revenue in excess of $375 million
- Successfully integrate Laird Electric and realize synergies with our other operating companies
- Return Triton Projects to profitability
- Increase our participation in the oil sands market in the Fort McMurray region
- Grow our base of recurring revenue by expanding our maintenance services
- Extend our range of services, clients and geographic regions
- Build work in hand to support continued growth in 2004
- Pursue targeted acquisitions, primarily in the industrial sector
- Maintain a safety record better than our industry peers

POSITIVE OUTLOOK

Churchill ended 2002 with record year-end work in hand of $317 million, up $48 million from $269 million at the end of 2001. We believe Laird Electric will make a positive contribution to Churchill in 2003 and beyond. We anticipate our revenue will exceed $375 million in 2003 and our profitability will improve. We expect the first part of 2003 will be a challenge, with the market and our performance improving as the year progresses.

As the new Chairman and President, we appreciate the confidence expressed in us by the Corporation. We are committed to improve on our 2002 performance. We remain confident Churchill has the strong fundamentals and sound strategy required to realize on its great potential. We remain focussed on building shareholder value by growing a highly profitable and sustainable business through the delivery of outstanding service and value to our clients. On behalf of the Board of Directors, we would like to thank our employees, clients and shareholders for their continued support.

March 18, 2003

Gary R. Bardell
President and
Chief Executive Officer

Peter F. Adams
Chairman

FULLER AUSTIN AND NORTHERN INDUSTRIAL

Fuller Austin and Northern Industrial serve clients primarily in the oil and gas, petrochemical, utilities, forest products, power and mining sectors. Fuller Austin serves the building-trade union market while Northern Industrial serves the open-shop market. These independent operations enable us to participate in all sectors of the market.

Fuller Austin and Northern Industrial provide an integrated range of complementary services, including insulation, siding, fireproofing, sheet metal contracting, fire stopping, asbestos abatement and plant maintenance. We provide a broader range of services than our competitors, enabling us to deliver a single-source solution to our clients.

Providing a broad range of complementary services - SaskPower Corporation - Estevan, SK

Recurring revenue from maintenance services - Alberta Envirofuels - Edmonton, AB - $3 million

Serving the energy industry - Consumers Cooperative Refineries Ltd, Expansion - Regina, SK - $5 million

OUR MARKET POSITION

We are the second largest industrial insulation and related services contractor in Western Canada and northwestern Ontario. We serve this region from offices in Edmonton, Calgary, Fort McMurray, Bonnyville, Regina and Thunder Bay. Fuller Austin and Northern Industrial have both established offices in Fort McMurray, enabling us to participate more actively in the oil sands market. The acquisition of Lakehead Insulation in Thunder Bay in early 2002 extended Fuller Austin's geographic market to serve the forest products industry in northwestern Ontario. A significant portion of Lakehead revenue is generated on a recurring basis by providing maintenance services. Integration with Fuller Austin has allowed Lakehead to provide a wider range of services to its clients, including siding and fireproofing. The large project experience and organizational depth of Fuller Austin enabled Lakehead to recently procure two large projects with Weyerhaeuser in Dryden, Ontario.

Fuller Austin, Northern Industrial and Lakehead Insulation employ 43 full-time salaried staff plus field crews of 300 to 1,200 people. Fuller Austin has been in business for more than 40 years, Northern Industrial for 15 years and Lakehead more than 50 years. Each company has built long-term client relationships and an excellent reputation for reliability and efficiency. All of our insulation companies have excellent safety records, including having completed 700,000 man-hours of work in 2002 with only one minor lost time accident.

Northern Industrial had another growth year in 2002. Fuller Austin was very active in Saskatchewan but project delays contributed to a slow and highly competitive market for large projects in Alberta. Overall, our insulation business was profitable and increased revenue by 42% to $44 million in 2002. We continue to reposition our business to generate more revenue on a recurring basis from maintenance services. Our insulation business is benefiting from a client preference to source an integrated range of services from one firm. The market outlook for our insulation business remains positive as demand for our services remains strong. We have a high level of work in hand to support continued revenue growth in 2003.

PanCanadian Petroleum - Weyburn, SK

TRITON PROJECTS

Triton Projects provides heavy-industrial general contracting, fabrication and maintenance services to resource and industrial clients throughout Western Canada. We are one of the largest open-shop mechanical contractors in our region. We serve clients primarily in the oil and gas, petrochemical, power generation, mining and forest products sectors.

TRITON PROJECTS PROVIDES A FULL RANGE OF COMPLEMENTARY SERVICES, INCLUDING:

- plant-site preparation
- installation and erection of structural steel and piping
- equipment setting and assembly
- fabrication and installation of process equipment modules
- small diameter pipeline construction
- building erection, electrical, instrumentation painting and insulation
- industrial maintenance (including on-stream, shutdowns and turnarounds)
- estimating, planning and cost control

Triton has significant experience in dismantling and relocation of existing facilities, well-site abandonment and restoration, and in new construction.

Canadian Hydro Developers Inc. - Pingston Hydro Project - near Revelstoke, BC

Enbridge Pipelines (Athabasca) Inc. - Kirby Lake Pump Station - near Conklin, AB - $8 million

TransCanada Energy Ltd. (subsidiary of TransCanada Pipelines Limited) - Bear Creek Co-generation Project - near Grande Prairie, AB - $3 million

Enbridge Pipelines (Athabasca) Inc. - Athabasca Terminal Expansion - Fort McMurray, AB - $6 million

OUR MARKET POSITION

Triton is based in Edmonton with offices in Fort McMurray, Bonnyville and Calgary. Our new office in Fort McMurray positions us to participate more actively in the oil sands market. The acquisition of H&H in 2000 provided Triton a base of recurring revenue from providing maintenance services to clients in the expanding heavy oil sector in the Bonnyville region. Triton employs 70 full-time salaried staff plus more than 200 people in field operations. Triton has been in business for 50 years, building long-term relationships with clients and subcontractors and developing an experienced and capable management team. We have built a superior reputation for reliability, quality and efficiency by consistently delivering projects on schedule and on budget. Triton recently achieved a safety milestone by completing 1,000,000 man-hours of work without incurring any lost time accidents.

Triton incurred its first financial loss in the last decade as revenue declined 21% to $44 million in 2002 and margins were under competitive pressure. Triton continues to experience steady demand for its services, particularly from the oil and gas and petrochemical sectors. Although our markets remain slow and highly competitive in early 2003, we anticipate recovery later in the year.

Experience in large residential projects
Georgian Towers - Broughton - Vancouver, BC - $1[illegible] million

STUART OLSON

Stuart Olson has been in business for 63 years. We have built a strong reputation and positive relationships with clients, subcontractors and suppliers. Stuart Olson is one of the three largest building contractors in Western Canada.

Stuart Olson provides general contracting, construction management and design-build services to clients in the institutional, commercial and light industrial market sectors. Projects generally entail the construction, expansion or renovation of a building. Stuart Olson has particular expertise in serving the building requirements of the food processing and distribution, multi-unit residential, hospitality, retail, biotechnology, recreational, healthcare, seniors' care and educational sectors.

Providing the hospitality industry with depth of experience - Hyatt Regency Hotel renovation - Vancouver, BC - $14 million

Strength and expertise in healthcare facilities - Red Deer Regional Hospital - Red Deer, AB - $68 million

A leader in the construction management process - Coquitlam Centre Mall expansion - Coquitlam, BC - $50 million

Ongoing strength in the biotechnology sector - Angiotech Pharmaceuticals - False Creek Research Park - Vancouver, BC - $8 million

LARGE PROJECTS ENHANCE SUSTAINABILITY

Stuart Olson has successfully expanded our share of the large projects market during the last few years by leveraging our large project experience and Churchill's financial strength. Large projects have a longer duration, which enhances the predictability and sustainability of our revenue and earnings.

During the last year, Stuart Olson has been active on six of the largest projects in our 63-year history:

- An $80 million contract to redevelop Alberta Hospital Ponoka
- Multi-phase contracts of $75 million to renovate and expand the Southern Alberta Institute of Technology main campus in Calgary
- A $68 million multi-phase contract to expand and renovate the Red Deer Regional Hospital Centre
- A $50 million contract to redevelop and expand the Coquitlam Centre Mall in British Columbia
- A $50 million contract to construct a potato-processing plant in Portage la Prairie, Manitoba for Simplot, in alliance with another contractor
- A $40 million contract to construct the Health and Social Services Centre in Inuvik, Northwest Territories, in alliance with another contractor

Population growth stimulates investment in public infrastructure - Chilliwack Landing Leisure Centre - Chilliwack, BC - $12 million

CONSTRUCTION MANAGEMENT AND DESIGN-BUILD ENHANCE VALUE

Diversity of clients adds stability to our market - The Residences at St. Andrew's Wesley - Vancouver, BC - $18 million

Stuart Olson is a leader in alternative methods of project delivery, including construction management and design-build, which complement our general contracting capabilities. These methods entail working with clients and a design team early in the planning phase of a project to value-engineer the design and plan the construction process. These methods enhance client value through increased certainty of project completion on time and on budget and can also provide a single source of responsibility. Stuart Olson has completed many private and public sector projects under these alternative methods, which now generate more than 65% of our revenue.

Proven capability in biotechnology - Isotechnika Research Facility - Edmonton, AB - $4 million

Providing experience in the retail sector - Capilano Mall - North Vancouver, BC - $8 million

A leader in alternative methods of project delivery on educational facilities - Webber Academy - Calgary, AB - $9 million

Renovation and restoration work - Selkirk Hotel restoration - Fort Edmonton Park - Edmonton, AB - $3 million

OUR MARKET POSITION

Stuart Olson was profitable on revenue of $224 million in 2002, up $18 million from 2001. Our new branches in Lethbridge and Victoria were each awarded projects during the year. Our geographic market was also extended through our major projects in Inuvik, Northwest Territories and Portage la Prairie, Manitoba.

Stuart Olson has developed relationships with partners and is pursuing public sector projects in Alberta and British Columbia on a Public Private Partnership ("P3") basis. These arrangements entail an alliance of design, construction, operations and financing partners collaborating to deliver public sector infrastructure projects.

We employ 133 full-time salaried staff plus 150 to 300 construction workers. We are placing increased emphasis on training and development programs to enhance the abilities of our people.

Most of our revenue is generated from repeat clients or through select invitational tenders, reflecting the effectiveness of our target marketing and client development. Less than 20% of revenue is generated from fixed-price bids. Stuart Olson subcontracts up to 90% of project work, which reduces risk and the amount of capital required to operate and to grow the business. Our record level of work in hand positions us to increase revenue in 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the operating performance and financial position of Churchill should be read in conjunction with the December 31, 2002 Consolidated Financial Statements and related notes on pages 31 to 44 and the Report to Shareholders on pages 4 to 11 of this Annual Report.

KEY OPERATING RESULTS

The following tables set forth certain unaudited historic operating results and financial information referred to in this management's discussion and analysis:

Years ended December 31

($ thousands, except for percentages and per share amounts)	2002	2001	Change 2002 over 2001
Contract Revenue	$ 311,663	$ 293,462	6%
Contract Income	20,639	30,123	(31%)
Contract Income (%)	6.6%	10.3%	–
Earnings from Construction Operations	119	8,696	(99%)
Earnings from Construction Operations (%)	0.0%	3.0%	–
Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") (A)	2,786	10,966	(75%)
EBITDA (%)	0.9%	3.7%	–
Net Earnings Before Income Taxes	546	9,005	(94%)
Net Earnings	982	5,318	(82%)
Earnings per Share (Basic)	0.09	0.50	(82%)
Earnings per Share (Fully Diluted)	0.09	0.47	(81%)
Working Capital	21,175	22,504	(6%)
Working Capital Ratio	1.32	1.31	–
Shareholders' Equity	31,681	30,584	4%
Book Value per Common Share	2.92	2.89	1%
Work in Hand	317,266	269,101	18%
Return on Average Shareholders' Equity	3%	19%	–
Capital Expenditures	4,154	1,706	143%
Acquisition of Subsidiary	570	Nil	–

(A) EBITDA in 2002 is calculated as net earnings of $982,000, less net income tax recovery of $436,000, plus interest expense of $248,000 and depreciation expense of $1,992,000. EBITDA in 2001 is calculated as net earnings of $5,318,000, plus income tax expense of $3,687,000, interest expense of $253,000 and depreciation expense of $1,708,000.

EBITDA is a non-generally accepted accounting principle (GAAP) earnings measure that does not have any standardized meaning prescribed by GAAP, and therefore is unlikely to be comparable to EBITDA presented by other companies. EBITDA is considered a measure of operating cash flow prior to interest expense, income tax expense and the non-cash expenses of depreciation and amortization.

Quarterly Financial Information

	2002				2001			
($ millions, except per share amounts)	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Contract Revenue	$ 67.1	$ 75.0	$ 85.0	$ 84.6	$ 53.7	$ 70.9	$ 77.9	$ 91.0
Net Earnings (Loss)	0.4	0.8	(0.2)	Nil	0.8	1.6	2.0	0.9
Earnings (Loss) per Common Share:								
-Basic	0.04	0.07	(0.02)	Nil	0.08	0.15	0.19	0.08
-Fully Diluted	0.04	0.06	(0.02)	Nil	0.07	0.15	0.17	0.08

OVERVIEW – VISION, STRATEGY AND CORE BUSINESS

Churchill's mission is to maximize client value in the construction, maintenance and industrial service delivery process by working closely with our clients to profitably deliver services that exceed their expectations. Churchill's strategic vision is to build a highly profitable, diversified and sustainable construction and industrial services business. Churchill's strategy for increasing shareholder value is described in the Report to Shareholders section of this Annual Report. The progress made in 2002 in implementing this strategy and achieving previously disclosed goals is described in the 2002 Goal Achievements and Report to Shareholders sections of this Annual Report. Churchill is of the view the primary performance driver in creating value for its shareholders is sustainable growth in profitability and this, in turn, is related to performance in: procuring and profitably completing work; building long-term client relationships; enhancing operating margins while controlling indirect and administrative expenses; attracting and developing capable employees; and growing its base of recurring revenue from providing maintenance services.

Churchill provides building construction and industrial construction and maintenance services. The Corporation had four operating segments in 2002: Buildings, Industrial General Contracting, Industrial Subcontracting, and Corporate and Other. The Buildings Segment (Stuart Olson) constructs commercial, institutional and light-industrial buildings. The Industrial General Contracting Segment (Triton Projects) provides heavy-industrial general contracting, fabrication and maintenance services. The Industrial Subcontracting Segment (Fuller Austin Insulation and Northern Industrial Insulation) provides industrial insulation, maintenance and related services. The Corporate and Other Segment includes the Corporation's investment in Lafrentz Road Services Ltd. and all corporate costs not allocated directly to another operating segment. The operations of these subsidiaries are described in the Operations section on pages 12 to 19 of this Annual Report. In February 2003, Churchill acquired Laird Electric, which provides industrial electrical, instrumentation and power-line construction and maintenance services (see Subsequent Event note in this Management's Discussion and Analysis and Note 21 to the Consolidated Financial Statements). Churchill is active throughout Western Canada, northwestern Ontario and the Northwest Territories.

CONSTRUCTION OPERATIONS

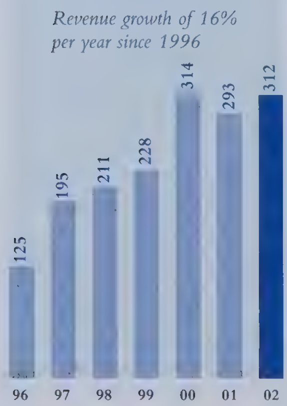
Contract Revenue

Construction contract revenue increased by $19 million, or 6%, to $312 million in 2002, compared to $293 million in 2001. Stuart Olson achieved revenue of $224 million, up $18 million, or 9%, from $206 million in 2001. Fuller Austin Insulation and Northern Industrial Insulation achieved combined revenue of $44 million, up $13 million, or 42%, from revenue of $31 million in 2001. This growth in Stuart Olson and industrial insulation revenue was achieved despite client-related delays on a significant number of projects expected to generate revenue in 2002. Triton Projects revenue was $44 million in 2002, down $12 million, or 21%, from 2001 revenue of $56 million. This decline in Triton revenue was primarily a result of a slow and highly competitive market for its services in 2002.

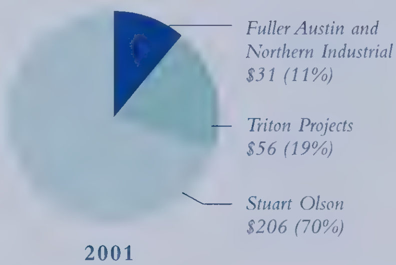
Triton Projects, Fuller Austin and Northern Industrial generated 28% of consolidated revenue in 2002, compared to 30% in 2001. We have a strategic goal of our industrial construction and maintenance business contributing 40% of consolidated revenue by 2005. The acquisition of Laird Electric and internal initiatives to grow our current industrial businesses are expected to contribute to achieving this balance in our revenue mix.

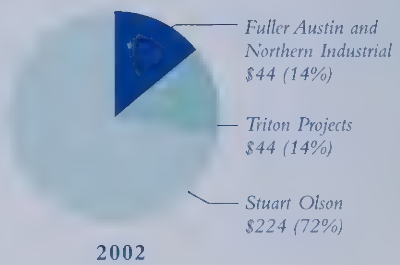
The overall strength of our markets is affected by the general economy and related level of capital spending on building and resource facilities construction. Public sector infrastructure investment depends in part on population growth, fiscal policy and tax revenue. Private sector capital investment is impacted by capacity utilization, profitability and capital market conditions, while resource sector capital investment is also driven by current and anticipated prices of energy and other commodities, producer cash flow and access to capital markets. Industrial maintenance expenditures are more consistent than capital spending levels.

REVENUE
($ MILLIONS)



REVENUE MIX
($ MILLIONS)





Contract Income

Contract income decreased to $20,639,000 in 2002 from $30,123,000 in 2001, while also declining to 6.6% of contract revenue from 10.3%. The major factors contributing to this decline in margins included competitive pressure in all of our markets and difficulties in the execution of various projects. Triton incurred a significant loss in 2002, primarily due to: a decline in revenue; lower margins due to weak execution of certain projects and competitive pressure; and increased infrastructure-related costs. Stuart Olson generated a significant portion of its 2002 revenue on large and lower risk construction management projects that, by their nature, generally yield lower margins. In 2001, contract income included gains of $2,290,000 on resolution of various collection and contractual issues. No comparable gains occurred in 2002.

Under normal market conditions, Fuller Austin and Northern Industrial generally achieve contract income of 12% to 18% of revenue while Triton Projects achieves 10% to 16% and Stuart Olson achieves 4% to 6%. Variation in the composition of contract revenue may therefore impact consolidated contract income percentage margin. These differing margins primarily reflect the inherent nature of the markets in which we do business. In general, higher margins reflect greater capital intensity and a larger portion of work performed directly. Normal market conditions did not exist in 2002 and these historic margins were not achieved.

Labour, materials and subcontractor costs are the largest components of contract costs.

Indirect and Administrative Expenses

Indirect and administrative expenses increased by $1,243,000, or 7%, over 2001, while remaining a constant 6.2% of revenue. This increase included:

- investment in additional people plus training and development to add capacity for growth. Full-time salaried personnel increased 9% during the year. The cost of this investment was partially offset by lower bonuses in 2002 resulting from the decline in profitability
- indirect and administrative costs resulting from the operation of Lakehead Insulation, which was acquired in January 2002
- costs related to professional fees on JTB Canadian Pork and management changes at Triton Projects

Approximately 40% of this increase was related to infrequently occurring items, including the JTB-related costs and costs related to management changes, while the balance reflected an increase in ongoing costs of doing business in anticipation of higher revenue levels in 2003 and beyond. Churchill continues to plan and monitor indirect and administrative expenses to ensure value is received and our organizational capacity is consistent with market trends and opportunities.

Bad Debt Expense

A net bad debt recovery of $131,000 was achieved in 2002 as a $250,000 recovery was made on a bad debt allowance established on an industrial project in 2001. A bad debt allowance of $119,000 was established in 2002, largely on an industrial project on which we wrote off our full exposure. The majority of the $2,994,000 bad debt allowance in 2001 was related to JTB Canadian Pork, the current status of which is discussed below under Subsequent Events.

Earnings from Construction Operations

Earnings from construction operations were $119,000, compared to $8,696,000 in 2001, primarily as a result of lower contract margins. The $1,243,000 increase in indirect and administrative expenses, $284,000 increase in depreciation expense and $600,000 decrease in interest income were also contributing factors. Stuart Olson achieved earnings from construction operations of $1,840,000 in 2002, compared to $7,100,000 in 2001. In 2001, Stuart Olson financial performance was aided by gains of $2,290,000 on resolution of various collection and contractual issues and eroded by the $2,060,000 JTB bad debt expense. Fuller Austin and Northern Industrial achieved earnings from construction operations of $1,547,000 in 2002, up from $406,000 in 2001. Triton Projects incurred a significant loss from construction operations of $1,053,000 in 2002, compared to earnings from construction operations of $4,156,000 in 2001. This was Triton's first significant loss in its 50-year history.

NON-CONSTRUCTION OPERATIONS

Non-construction operations consist primarily of Churchill's 41% ownership of Lafrentz Road Services, an Edmonton-based road markings company. Our Lafrentz interest had a net book value of $1,416,000 on December 31, 2002 (see Subsequent Events).

INFREQUENTLY OCCURRING ITEMS

Our 2001 results included gains of $2,290,000 on resolution of various collection and contractual issues. While these items occasionally arise in the normal course of our business, this amount of gain in one year is infrequent and unlikely to recur. A bad debt allowance of $2,994,000 was established in 2001. Although collection issues arise in our business, the magnitude was unusual last year.

INTEREST INCOME

Interest income declined by $600,000 to $769,000 in 2002 from $1,369,000 in 2001, primarily due to a general decline in interest rates.

INCOME TAXES

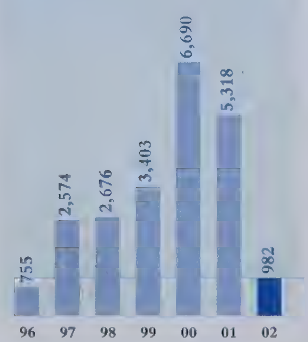
Our income subject to tax was higher than accounting income as non-deductible expenses exceeded non-taxable equity earnings. A reduction in future income taxes related to a reduction in tax rates applicable in the future, and tax recovery, related to the carry-back of current tax losses to prior periods when tax rates were higher, resulted in tax savings of $719,000 and a net tax recovery of $436,000 in 2002. Of this net tax recovery of $436,000, we will recover current taxes of $1,852,000, while $1,416,000 is future income tax expense that does not entail a current outlay of cash (see Note 11 to the Consolidated Financial Statements).

NET EARNINGS

Net earnings decreased to $982,000 in 2002 from $5,318,000 in 2001. Earnings per Common Share decreased to $0.09 in 2002 from $0.50 in 2001 (basic) and to $0.09 in 2002 from $0.47 in 2001 (fully diluted). Return on average shareholders' equity was 3% in 2002, compared to 19% in 2001.

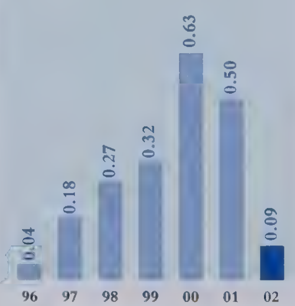
NET EARNINGS
($ THOUSANDS)

Profitable in each of the last seven years



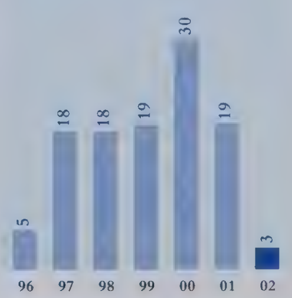
EARNINGS PER SHARE
($ BASIC)

Positive earnings per share in each of the last seven years



RETURN ON AVERAGE SHAREHOLDERS' INVESTMENT
(%)

A top-quartile return on shareholders' equity was sustained for five consecutive years through 2001



CASH FLOW

Cash generated from operating activities, prior to changes in working capital, was $4,018,000 in 2002, compared to $11,300,000 in 2001. This was principally due to the decline in earnings, plus a $3,249,000 lesser increase in future income tax. Depreciation expense increased 17% to $1,992,000, primarily due to the acquisition of Lakehead Insulation, the purchase of a new Triton building, plus equipment and vehicles acquired in the ordinary course of our business.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") decreased to $2,786,000 in 2002 from $10,966,000 in 2001, while also decreasing to 0.9% of contract revenue from 3.7% in 2001. This reduction was primarily due to the decline in earnings from construction operations.

Capital expenditures of $4,154,000 included:

- $2,100,000 purchase of Triton's new premises and tenant improvements to various leased premises
- $1,300,000 of construction and office equipment and vehicles acquired in the ordinary course of our business
- $600,000 of computer equipment and software

Triton Projects sold its office building in Nisku, Alberta for net cash proceeds of $380,000 plus the assumption by the purchaser of a property loan of $665,000, resulting in a loss on disposal of $43,000. Triton relocated into new premises in Edmonton during the year, primarily to accommodate anticipated growth and to enhance accessibility for clients and employees.

Capital expenditures and acquisitions are largely discretionary. Expenditures in 2003 will depend on management's view of market conditions as well as other factors. The timing of most Churchill capital expenditures is also discretionary, and Churchill has no material long-term capital expenditure commitments.

FINANCING ACTIVITIES

Our bank has approved a $7,000,000 operating line of credit, a $2,000,000 acquisition line of credit and a $2,000,000 equipment loan, of which $306,000 was utilized at December 31, 2002 (see Subsequent Events).

ACQUISITION

Fuller Austin acquired Lakehead Insulation of Thunder Bay, Ontario on January 17, 2002. The purchase price was $692,000, including the purchase of $122,000 cash, plus future consideration based on Lakehead earnings in excess of a threshold level during the three-year period ending December 31, 2004. No future consideration was earned based on Lakehead earnings in 2002. This acquisition was financed from the working capital of the Corporation.

SUBSEQUENT EVENTS

Acquisition of Laird Electric

Churchill acquired Laird Electric of Fort McMurray and Edmonton, Alberta on February 7, 2003. This acquisition is not recorded in the Consolidated Financial Statements.

The purchase price of the Laird shares was $10,650,000, comprised of $8,425,000 cash plus the issuance from treasury of 826,412 Churchill Common Shares. The issued Shares were valued at $2.69 each, based on their average market price in early February. The Shares are subject to an escrow agreement, restricting sale for 180 days from February 7, 2003 and further restricting sale of 50% of the Shares for 18 months from February 7, 2003. Of the aggregate purchase price, $1,000,000 is subject to Laird exceeding cumulative EBITDA of $7,500,000 during the three-year period ending December 31, 2005. A further $1,000,000 of the purchase price is subject to the continuing employment of key members of Laird management.

Laird Electric provides electrical, instrumentation and power-line construction and maintenance services to clients in the Fort McMurray and Edmonton regions. Laird generates 25% to 50% of its revenue by providing maintenance services. Key members of the Laird management team remain with the Company in their previous roles. Laird has historically achieved EBITDA of 8% to 14% of revenue. Laird management will receive an employment bonus of a declining portion of EBITDA in excess of an annual $3,500,000 threshold during the next three years, and this amount could be significant. Churchill anticipates Laird will contribute EBITDA of 7% to 10% of its revenue, net of this management bonus, during the next three years.

In connection with this acquisition, the Corporation borrowed $8,000,000 under a five-year term loan and increased its available operating line of credit by $3,500,000 to $10,500,000.

Sale of Lafrentz Road Services

The assets of Lafrentz Road Services were sold in February 2003. Churchill's 41% minority interest in Lafrentz was a non-core asset. Churchill's proceeds, net of costs and allowance for warranty provisions, are expected to exceed the net book value of the investment by a modest amount. This transaction will be recognized in the first quarter of 2003.

JTB Canadian Pork

In February 2002, Stuart Olson suspended work on its contract to build the JTB Canadian Pork processing plant pending client financing to complete the project. A $2,060,000 bad debt allowance was recorded in Churchill's 2001 financial statements. Stuart Olson holds a priority security position against the JTB assets. JTB was placed in receivership in September 2002. In February 2003, the Receiver-Manager accepted a $5,500,000 offer for the JTB assets, which included a $500,000 non-refundable deposit received in February and an anticipated closing in March 2003. The purchaser made a further $250,000 non-refundable deposit in March to extend the closing date to April, and has the right to make a further $250,000 non-refundable deposit in April to extend the closing date to late May 2003. Stuart Olson has agreed to convert $2,000,000 of its amount receivable into secured financing to the purchaser for a one-year term. There is no assurance this proposed sale will close. Should this sale close, the bad debt allowance established in the Corporation's 2001 financial statements is expected to be adequate, although it is not yet possible to determine if any recovery will be achieved on this allowance. JTB was a major distraction of management time and effort throughout 2002, during which $333,000 of legal and other carrying costs were expended on our efforts to resolve this issue (see Note 21 to the Consolidated Financial Statements).

BALANCE SHEET, LIQUIDITY AND CAPITAL RESOURCES

Churchill's financial condition was strengthened during 2002 through the retention of net earnings of $982,000. Shareholders' equity increased by $1,097,000 to $31,681,000 during the year, while book value per share increased to $2.92 from $2.89.

The number of outstanding Common Shares increased by 297,066 during 2002 as Shares issued on exercise of options exceeded the Shares repurchased for cancellation under a Normal Course Issuer Bid. Options to purchase 446,666 Common Shares were exercised during the year at an average price of $1.10 for proceeds of $489,000. Churchill purchased for cancellation 149,600 Common Shares at an average cost of $2.51 per Share under a Normal Course Issuer Bid during 2002, representing an aggregate investment of $374,000. The Corporation has repurchased for cancellation an aggregate of 1,163,700 Common Shares at an average price of $1.63 per Share under Bids since 1999. Churchill commenced a new Bid in January 2003 under which it is able to purchase, for cancellation, up to 800,000 Common Shares. Churchill's Board of Directors is of the view the Common Shares are undervalued in the market and purchase of the Common Shares is therefore advantageous to shareholders.

Working capital decreased by $1,329,000 to $21,175,000. We have more than adequate working capital to support our current and projected levels of activity. The ratio of current assets to current liabilities was 1.32 to 1 on December 31, 2002, up from 1.31 to 1 on December 31, 2001.

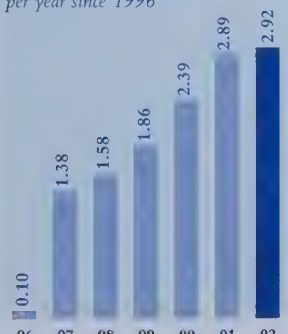
Cash, net of bank operating line of credit utilization, decreased to $14,093,000 from $17,581,000 during 2002. On December 31, 2002, cash included $5,512,000 (2001: $7,014,000) restricted to the payment of direct costs related to specific construction projects. During the year, accounts receivable increased by 4% while accounts payable decreased by 2% and contract advances and unearned income decreased by 16%. These changes in current asset and liability amounts reflect timing issues on various projects, rather than any material or sustained changes in collection or payment patterns.

Cash flow from operations is again expected to be positive in 2003. We anticipate this operating cash flow, together with our existing cash and approved credit facilities, will be sufficient to finance working capital and capital spending requirements during the next year. We plan to finance continued growth, including potential acquisitions, primarily through utilizing our existing working capital plus current and additional credit facilities, as was done in financing the acquisition of Laird Electric. On December 31, 2002, Churchill had $362,000 of long-term debt, only 1% of shareholders' equity. We believe additional debt financing can be used to grow Churchill, while maintaining a balanced capital structure with long-term debt of less than 60% of shareholders' equity.

In addition to these financial resources, Churchill has important non-financial resources needed to operate its business, including client relationships, human resources and management systems and processes. Churchill employs 280 full-time salaried personnel plus up to 2,000 construction workers. The capabilities and commitment of Churchill's people are critical to continued success of the Corporation. Compensation and other human resource management systems are in place to recruit, motivate and retain appropriate personnel.

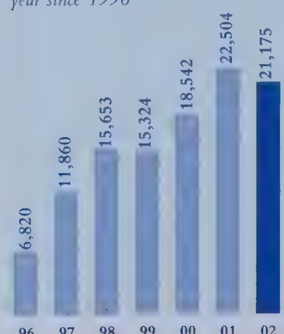
BOOK VALUE PER COMMON SHARE
($)

Book value per share growth of 75% per year since 1996



WORKING CAPITAL
($ THOUSANDS)

Working capital growth of 21% per year since 1996



RISKS AND RISK MANAGEMENT

ECONOMIC ENVIRONMENT

The strength of the economy and related level of capital spending are primary determinants of the market for our services. A weak market generally leads to increased competitive pressure on margins, as occurred in 2002. We seek to manage this market risk through diversification: our operations provide a wide range of construction and maintenance services to a diverse base of commercial, industrial and institutional clients throughout Western Canada. This diversity reduces our sensitivity to weakness in a specific sector.

Our progress in increasing our base of recurring revenue from industrial maintenance will reduce exposure to capital spending cycles and enhance the sustainability of revenue and cash flow. Our operations are generally positioned in low fixed-cost, high revenue-to-assets segments of our industry. This enables us to respond to changing market conditions, as we have demonstrated in the past.

Churchill had record year-end work in hand of $317 million on December 31, 2002 (excluding the work in hand of Laird Electric). While this backlog will cushion the revenue impact of any future economic slow-down, the margins on this work will reflect that it was procured in the highly competitive market of 2002.

PROJECT FACTORS

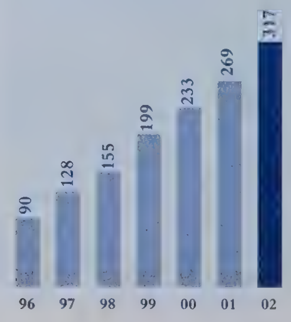
A portion of revenue is generated from fixed-price contracts on which estimating risks, difficulties in project execution and other factors may impact profitability, as occurred in 2002. Project risks include exposure to labour productivity and inefficiencies related to weather conditions. We have management information systems, controls and procedures in place to support the expertise of our experienced personnel in preparing estimates, monitoring productivity and documenting the status of projects. We manage project exposure in part by dealing with known subcontractors and by obtaining performance bonds, where appropriate. The large number of projects we complete in a year reduces our exposure to any single project, as most projects represent less than 10% of annual revenue. Most Laird revenue is generated from lower-risk unit-rate and reimbursable-rate arrangements, rather than from fixed-price work. Overall, more than 60% of Churchill revenue is generated on a construction management or cost-reimbursable basis, which reduces our exposure to cost overruns on fixed-price work.

Negotiations with clients with respect to additional payments owing as a result of delays or changes in contract specifications may positively or negatively impact income and liquidity. These claims occasionally arise in the ordinary course of business and are recorded at the lesser of net realizable value or costs incurred.

Our normal practice is to complete a thorough risk assessment prior to accepting a project, including an analysis of the client's financial capability. Nevertheless, collection issues occasionally arise. Notwithstanding the unusual experience of 2001 when a bad debt allowance of $2,994,000 was established, our overall collection history is good, with bad debts averaging 0.2% of revenue over the last five years.

WORK IN HAND
($ MILLIONS)

Year-end work in hand has increased at a 23% annual rate since 1996 to a record $317 million



OUTLOOK

Work in hand is a leading indicator of revenue over a period of up to 18 months. Churchill had record year-end work in hand of $317 million on December 31, 2002, compared to $269 million last year. We anticipate over 75% of this $317 million will be completed in 2003. Work in hand levels are particularly strong in Stuart Olson, Fuller Austin and Northern Industrial while Triton's level of work in hand was also above average. This work was procured in the highly competitive market environment that existed during most of 2002.

While Churchill is active throughout Western Canada, northwestern Ontario and the Northwest Territories, 65% to 75% of revenue is generated in Alberta. We believe Alberta will remain one of the best construction markets in North America. The massive long-term investment in the oil sands is continuing and is expected to provide a strong base of economic activity in Alberta for the next several years. Population growth, lower tax rates and a strong fiscal position contribute to a generally positive outlook for private and public sector investment in Alberta. The market in British Columbia has been slower during the last two years but is expected to strengthen later in 2003.

Our strategy is to achieve a balance between our building construction and industrial activities, while growing through a combination of internal initiatives and acquisitions. Acquisitions are targeted primarily in the higher-margin industrial market, with a focus on growing our base of recurring revenue from maintenance activities. As our industrial activities grow more rapidly to represent a larger portion of revenue, overall contract income percentage margin should increase. The recently acquired Laird Electric and Lakehead Insulation should make positive contributions to earnings in 2003 and beyond.

We expect the current highly competitive market environment will remain a challenge in early 2003 with market conditions and our performance improving later in the year. Based on our record year-end level of work in hand, the acquisition of Laird Electric and improving market conditions, we anticipate revenue will exceed $375 million in 2003 and, although margins will continue under competitive pressure, earnings will improve from last year.

Integrity of Disclosure

Churchill management is responsible for the existence of appropriate information systems, procedures and controls to ensure information used internally and disclosed externally is complete and reliable, including the information disclosed in this Management's Discussion and Analysis. The Churchill Board of Directors and Audit Committee have an oversight role to ensure the integrity of reported information.

MANAGEMENT'S AND AUDITORS' REPORTS

The accompanying financial statements and all information in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgment. Financial information contained throughout this Annual Report is consistent with the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

Deloitte & Touche LLP, an independent firm of Chartered Accountants, was appointed by a vote of shareholders at the Corporation's last annual meeting to examine and report on the consolidated financial statements of the Corporation in accordance with generally accepted auditing standards.

The Board of Directors has approved the information contained in the consolidated financial statements. The Board fulfills its responsibility in this regard mainly through its Audit Committee which has thoroughly reviewed the financial statements, including the notes thereto, with management and the external auditors.

Gary R. Bardell, M.Sc., MBA, P.Eng.
President and CEO

Ian T. Morris, CA, CBV
Vice President Finance and CFO

To the Shareholders of The Churchill Corporation,

We have audited the consolidated balance sheets of The Churchill Corporation as at December 31, 2002 and 2001 and the consolidated statements of earnings, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and 2001 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Edmonton, Alberta
February 28, 2003

Consolidated Balance Sheets

As at December 31

($ thousands)	2002	2001
ASSETS		
Current Assets		
Cash (Note 5)	$ 14,093	$ 21,056
Accounts Receivable	70,578	67,849
Inventories and Prepaid Expenses	825	586
Properties for Sale (Note 6)	103	103
Income Taxes Recoverable	2,583	4,996
Current Portion of Agreements Receivable (Note 7)	95	76
	88,277	94,666
Agreements Receivable (Note 7)	167	173
Equity Investment	1,416	1,347
Future Income Tax Assets (Note 11)	340	212
Property and Equipment (Note 8)	8,770	7,452
	$ 98,970	$ 103,850
LIABILITIES		
Current Liabilities		
Bank Indebtedness (Note 9)	$ –	$ 3,475
Accounts Payable	49,130	49,898
Contract Advances and Unearned Income	12,139	14,377
Future Income Tax Liabilities (Note 11)	5,488	3,908
Current Portion of Long-Term Debt (Note 10)	345	504
	67,102	72,162
Long-Term Debt (Note 10)	17	1,020
Future Income Tax Liabilities (Note 11)	170	84
	67,289	73,266
SHAREHOLDERS' EQUITY		
Shareholders' Equity (Note 12)	31,681	30,584
	$ 98,970	$ 103,850

Approved by the Board:

Director

Director

Consolidated Statements of Earnings

Years ended December 31 ($ thousands, except per share amounts)	2002	2001
CONSTRUCTION OPERATIONS		
Contract Revenue	$ 311,663	$ 293,462
Contract Costs	291,024	263,339
Contract Income	20,639	30,123
Interest Income	769	1,369
Sundry Income	57	197
Indirect and Administrative Expenses	(19,312)	(18,069)
Bad Debt Recovery (Expense)	131	(2,994)
Depreciation	(1,992)	(1,708)
Interest Expense	(173)	(154)
Minority Interest	–	(68)
Earnings from Construction Operations	119	8,696
NON-CONSTRUCTION OPERATIONS		
Earnings before Interest (Note 14)	502	408
Interest Expense	(75)	(99)
Earnings from Non-Construction Operations	427	309
EARNINGS BEFORE INCOME TAXES	546	9,005
Income Taxes (Note 11)		
Current Recovery	1,852	978
Future Expense	(1,416)	(4,665)
	436	(3,687)
NET EARNINGS	$ 982	$ 5,318
Net Earnings Per Common Share (Note 13)		
Basic	$ 0.09	$ 0.50
Fully Diluted	$ 0.09	$ 0.47

Consolidated Statements of Retained Earnings

Years ended December 31 ($ thousands)	2002	2001
Retained Earnings, beginning of year	$ 24,631	$ 19,403
Net Earnings	982	5,318
Share redemption in excess of stated capital	(360)	(90)
Retained Earnings, end of year	$ 25,253	$ 24,631

Consolidated Statements of Cash Flow

Years ended December 31		
($ thousands)	2002	2001
OPERATING ACTIVITIES		
Net earnings	$ 982	$ 5,318
Add (deduct) non-cash items		
Net equity earnings of affiliate	(262)	(143)
Depreciation	1,992	1,708
Gain on disposal of properties for sale	(110)	(248)
Future income taxes	1,416	4,665
	4,018	11,300
Change in minority interest	–	(1,308)
Net change in accounts receivable, inventories and prepaid expenses	(2,590)	(10,921)
Net change in accounts payable, contract advances and unearned income	(3,147)	(1,630)
Change in income taxes payable/recoverable	2,413	(6,018)
	694	(8,577)
INVESTING ACTIVITIES		
Proceeds from agreements receivable	64	18
Proceeds on disposal of properties for sale	33	57
Proceeds on disposal of property and equipment	634	84
Cash distribution from equity investee	193	–
Acquisition of a subsidiary (Note 3)	(570)	–
Additions to property and equipment	(4,154)	(1,706)
	(3,800)	(1,547)
FINANCING ACTIVITIES		
Issuance of long-term debt	–	830
Repayment of long-term debt	(497)	(554)
Issuance of common shares	489	18
Redemption of common shares	(374)	(94)
	(382)	200
Decrease in cash	(3,488)	(9,924)
Net cash, beginning of year	17,581	27,505
Net cash, end of year	$ 14,093	$ 17,581
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 163	$ 256
Income taxes	$ 550	$ 5,040

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

The Churchill Corporation provides building construction, industrial mechanical construction, insulation, maintenance and related services within Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and reflect the following policies:

Consolidation

The consolidated financial statements include the accounts of the following subsidiaries, their subsidiaries and limited partnership:

Stuart Olson Construction Ltd. (100%)
Insulation Holdings Inc. (100%)
Triton Construction Inc. (100%)
Triton Projects Limited Partnership (100%)

Inventories

Inventories are recorded at the lower of cost and net realizable value.

Properties for Sale

Properties for sale are recorded at the lower of cost and net realizable value. Property sales are recorded when the Corporation has fulfilled all material conditions and received an appropriate down payment.

Equity Investment

Equity investment represents an interest in an operating company, Lafrentz Road Services Ltd., where the Corporation has significant influence. This interest is accounted for on the equity basis with an impairment allowance for any decline in value not considered temporary.

Property and Equipment

Property and equipment are recorded at cost and depreciated using either the diminishing-balance or the straight-line methods at the rates indicated in Note 8.

Contract Income

Contract revenue for cost-plus contracts is recorded as the service is performed and the related expenses are incurred. Contract revenue from fixed-price contracts is recognized on the percentage of completion basis. Percentage of completion is determined by relating either the actual cost of work or the actual hours performed to date to the current estimated total cost or estimated total hours for each contract. Any projected loss is recognized immediately.

Income Taxes

The Corporation uses the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets including unused tax losses are recognized, subject to a valuation allowance, to the extent it is more likely than not such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax assets and liabilities are to be either settled or realized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings Per Share

Fully diluted earnings per share is computed using the treasury stock method, whereby it is assumed any proceeds obtained upon the exercise of outstanding options would be used to buy back Common Shares at the average market price during the period.

Stock-Based Compensation Plan

Effective January 1, 2002, the Corporation adopted prospectively, the new accounting standard with respect to the accounting for, and disclosure of, stock-based compensation. The Corporation has elected to use the intrinsic value-based method and therefore no compensation expense has been recognized in the financial statements for stock options granted in the year.

Under the new accounting standard, companies that elect a method other than the fair value method of accounting are required to disclose pro forma net income and earnings per share information, using a pricing model such as the Black-Scholes model, as if the fair value method of accounting has been used (Note 15). These new rules do not apply to pre-existing awards, except for those awards that call for settlement in cash or other assets.

Use of Estimates

Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from these estimates.

Statements of Cash Flow

The statements of cash flow have been prepared using the indirect method.

Cash and Cash Equivalents

For the purposes of presentation on the Consolidated Statements of Cash Flow, cash and cash equivalents are comprised of bank balances net of an operating line of credit.

3. ACQUISITION OF SUBSIDIARY

($ thousands)

On January 17, 2002, Fuller Austin Insulation Inc., a subsidiary of the Corporation, acquired all the issued and outstanding shares of Lakehead Insulation Inc., an insulation contractor based in Thunder Bay, Ontario, for $692 plus future consideration based on Lakehead earnings during the three-year period ending December 31, 2004 (Note 16c).

The values assigned to the acquired net assets are:

Cash	$	122
Other Working Capital Items		237
Property and Equipment		455
Future Income Tax Liabilities		(122)
	$	692

The purchase price of $570 reflected on the Consolidated Statements of Cash Flow is recorded net of the $122 cash acquired.

4. JOINT VENTURES

($ thousands)

The Corporation and its subsidiaries are partners in incorporated and unincorporated joint ventures. These financial statements include the proportionate share of assets, liabilities, revenue, expenses, net income and cash flow of these joint ventures as follows:

	2002	2001
Current and total assets	$ 7,743	$ 3,475
Current and total liabilities	7,648	2,589
Contract revenue	33,831	8,849
Contract costs and expenses	33,330	8,549
Net income	501	300
Cash flow provided by operating activities	1,224	1,154

5. CASH

($ thousands)

Cash includes $5,512 (2001 - $7,014) the use of which is restricted to the payment of direct costs related to specific construction projects.

6. PROPERTIES FOR SALE

($ thousands)

	2002	2001
Undeveloped land	$ 647	$ 756
Less cumulative valuation adjustments	(544)	(653)
	$ 103	$ 103

7. AGREEMENTS RECEIVABLE

($ thousands)

	2002	2001
Mortgage receivable, interest at 7%	$ 185	$ 230
Mortgage receivable, interest at 5%	–	19
Mortgage receivable, interest at 6%	77	–
Less current portion	(95)	(76)
	$ 167	$ 173

During the year, properties were sold for net proceeds of $110 of which $77 was a mortgage receivable and $33 was cash.

8. PROPERTY AND EQUIPMENT

($ thousands)

	2002			2001	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Land	$ 1,103	$ –	$ 1,103	$ 850	
Buildings and improvements	5,022	2,086	2,936	2,240	4% - 25%
Vehicles and equipment	14,327	9,596	4,731	4,362	6% - 100%
	$ 20,452	$ 11,682	$ 8,770	$ 7,452	

Depreciation expensed in the year was $1,992 (2001 - $1,708).

9. BANK INDEBTEDNESS

($ thousands)

The Corporation maintains an operating line of credit of $7,000 (2001 - $7,000) which, if utilized, would bear interest at prime + 0.5%. The operating line of credit was increased by $3,500 to $10,500 subsequent to December 31, 2002 (Note 21a).

The Corporation has an acquisition line of credit of $2,000 (2001 - $2,000) bearing interest at prime + 1.25%, which was not being utilized at December 31, 2002, and an equipment line of $2,000 (2001 - $2,000) which bears interest at prime + 1.0%, of which $306 was utilized at December 31, 2002 (Note 10).

These lines of credit are secured by General Security Agreements and a pledge of specific assets.

10. LONG-TERM DEBT

($ thousands)

	2002	2001
Equipment loan	$ 306	$ 639
Property loan	–	737
Finance contracts	–	30
Capital leases	56	118
	362	1,524
Less current portion	(345)	(504)
	$ 17	$ 1,020

The equipment loan bears interest at prime + 1%, is secured by a pledge of specific assets, is due in November, 2003, and is payable in monthly installments of $28 plus interest.

The property loan of $665 was assumed by the purchaser as part of the sale of the property in October, 2002. The property was sold for net cash proceeds of $380, resulting in a loss on disposal of $43.

10. LONG-TERM DEBT (continued)

Finance contracts, which matured in 2002 and which bore interest at rates from 2.9% to 5.5%, were secured by equipment with a net book value of $10.

Capital leases, maturing from 2003 to 2005, bearing interest at rates from 8.4% to 10.6%, are secured by equipment with a net book value of $60.

Interest cost on long-term debt during the year was $65 (2001 - $154).

Estimated principal payments in the next three years are:

	2003	$	345
	2004		13
	2005		4

11. INCOME TAXES

($ thousands)

The Corporation's tax (recovery) expense differs from the provision computed at statutory rates as follows:

		2002		2001
Net earnings before income taxes	$	546	$	9,005
Equity earnings		(262)		(143)
Non-deductible expenses		353		712
Taxable Income	$	637	$	9,574
Income tax at statutory rate of 39.25% (2001 - 42.12%)	$	250	$	4,033
Large corporation and other taxes		15		15
Savings from reduction in tax rates for future income tax and tax recovery		(719)		(361)
Other		18		–
Income Tax (Recovery) Expense	$	(436)	$	3,687

The components of the future income tax assets and liabilities are as follows:

		2002		2001
Future income tax assets:				
-Book depreciation in excess of tax depreciation	$	90	$	150
-Other		250		62
		340		212
Non-current portion		(340)		(212)
Current portion	$	-	$	-
Future income tax liabilities:				
-Holdbacks and accounts receivable that relate to unapproved billings deducted for income tax purposes but not deducted for accounting purposes	$	3,403	$	1,548
-Accounting income not currently taxable		2,085		2,360
-Tax depreciation in excess of book depreciation		170		84
		5,658		3,992
Non-current portion		(170)		(84)
Current portion	$	5,488	$	3,908

The consolidated group has accumulated capital losses for income tax purposes of $6,576 which may be carried forward indefinitely to reduce future capital gains. The value of these losses has not been recognized in these financial statements.

12. SHAREHOLDERS' EQUITY

($ thousands, except share and per share amounts)

	2002	2001
Share capital	$ 1,300	$ 825
Contributed surplus	5,128	5,128
Retained earnings	25,253	24,631
	$ 31,681	$ 30,584

Share Capital

Authorized

Unlimited Preferred Shares issuable in series with rights set by the directors

Unlimited Common Shares

Issued	2002		2001	
	Shares	Share Capital	Shares	Share Capital
Common Shares:				
Issued, beginning of year	10,566,974	$ 825	10,598,774	$ 811
Shares cancelled	(149,600)	(14)	(45,800)	(4)
Issued from treasury	446,666	489	14,000	18
Issued, end of year	10,864,040	$ 1,300	10,566,974	$ 825

Contributed Surplus

Contributed surplus of $5,128 arose in 1997 from the acquisition of Preferred Shares, with an issue price of $9,829, for $4,142 plus associated acquisition costs of $559.

Share-Based Compensation Plan

The Corporation maintains an Employees and Directors Share Option Plan under which options may be granted by the Board of Directors for up to 1,675,000 Common Shares of the Corporation. The exercise price of each option is the public market price on the date of grant. The Board of Directors sets the exercise period for each option granted, which may not exceed ten years, and the vesting term, which may not exceed five years.

12. SHAREHOLDERS' EQUITY (continued)

A summary of the Corporation's outstanding share options under the Plan at December 31, 2002 and 2001, indicating changes during the years ended on those dates, is presented below:

	2002		2001	
	Number of Share Options	Weighted Average Exercise Price	Number of Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,431,000	$ 1.38	1,420,000	$ 1.33
Granted	125,000	3.84	40,000	3.10
Cancelled	(31,667)	3.10	(15,000)	1.29
Exercised	(446,666)	1.10	(14,000)	1.29
Outstanding, end of year	1,077,667	$ 1.73	1,431,000	$ 1.38

The following table summarizes information about share options outstanding under the Plan at December 31, 2002:

Exercise Price	Expiry Date	Options Outstanding Dec. 31, 2002	Options Exercisable Dec. 31, 2002
$ 1.29	May 20, 2004	513,000	513,000
1.30	Feb. 7, 2005	33,334	–
1.64	Nov. 13, 2005	398,000	324,667
3.10	Aug. 9, 2006	8,333	8,333
3.84	Aug. 9, 2007	125,000	25,000
		1,077,667	871,000

Issuance of Common Shares

During the year 446,666 share options were exercised at a weighted average price of $1.10 per share (2001 – 14,000 at $1.29), resulting in the issuance of 446,666 Common Shares (2001 – 14,000 shares).

Normal Course Issuer Bids

During the year the Corporation purchased 149,600 (2001 – 45,800) Common Shares for cancellation under a Normal Course Issuer Bid at an average cost of $2.51 per Share, including commissions (2001 - $2.05). The amount by which the cost exceeds the stated value of the Common Shares is charged to retained earnings.

On January 22, 2003, the Corporation initiated a new Normal Course Issuer Bid through the Toronto Stock Exchange under which up to 800,000 of its outstanding Common Shares may be purchased for cancellation. This new Bid will terminate on January 21, 2004.

12. SHAREHOLDERS' EQUITY (continued)

Shareholder Rights Plan

The Corporation has an Amended and Restated Shareholder Rights Plan (the "Plan") which attaches one Right, with an Exercise Price of $20.00, to each outstanding Common Share of the Corporation. The Rights expire on September 30, 2004 unless exchanged or redeemed on an earlier date. Such Rights can only be exercised on the occurrence of a triggering event, which is defined as a person (an "Acquiring Person") acquiring, or publicly announcing its intention to acquire, 20% or more of the Common Shares, other than by an acquisition pursuant to a takeover bid permitted by the Plan. Upon occurrence of a triggering event, as described above, each Right entitles the holder, other than an Acquiring Person, to purchase that number of Common Shares of the Corporation having an aggregate market price equal to twice the Exercise Price, for a cash amount equal to the Exercise Price.

13. NET EARNINGS PER COMMON SHARE

($ thousands, except share and per share amounts)

Basic earnings per share is computed on the basis of the weighted average number of Common Shares outstanding. Fully diluted earnings per share is computed on the basis of the weighted average number of Common Shares outstanding plus the effect of outstanding stock options using the treasury stock method.

The components of basic and fully diluted earnings per share are as follows:

	2002	2001
Net earnings	$ 982	$ 5,318
Weighted average number of Common Shares outstanding	10,773,696	10,567,745
Dilutive effect of share options	667,948	655,831
	11,441,644	11,223,576
Net Earnings Per Common Share:		
Basic	$ 0.09	$ 0.50
Fully Diluted	$ 0.09	$ 0.47

14. NON-CONSTRUCTION EARNINGS

($ thousands)

	2002	2001
Equity Investment		
Equity earnings	$ 262	$ 143
Management fees	120	–
Properties for Sale		
Property rentals – net	(3)	–
Gain on disposal	110	248
Interest income	13	17
Earnings Before Interest	$ 502	$ 408

15. STOCK-BASED COMPENSATION

During the year, the Corporation issued 125,000 options for Common Shares of the Corporation at an exercise price equal to the market price at the date of the grant of $3.84. Had the compensation expense for these options been determined based on the fair value methodology using the Black-Scholes option pricing model assuming no dividends are paid on Common Shares, a risk-free rate of 4.22%, an average life of 3.7 years and a volatility of 46.91%, the Corporation's pro forma basis net income and earnings per share would have been as follows:

			2002
Net Income (in thousands)	As reported	$	982
	Pro forma	$	922
Basic earnings per share	As reported	$	0.09
	Pro forma	$	0.09
Fully diluted earnings per share	As reported	$	0.09
	Pro forma	$	0.08

The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

16. CONTINGENCIES

($ thousands)

a) Subsidiaries of the Corporation are contingently liable for normal contractor obligations relating to performance and completion of construction contracts as well as obligations of associates in certain joint ventures.

b) The Corporation and its subsidiaries are defendants in lawsuits involving various amounts. Management is of the opinion the results of these actions should not have any material effect on the financial position of the Corporation. Any awards or settlements will be reflected in the Statement of Earnings as the matters are resolved.

c) On January 17, 2002, Fuller Austin Insulation Inc. acquired the shares of Lakehead Insulation Inc. The purchase agreement includes potential future consideration of up to $300 based on Lakehead earnings during the three-year period ending December 31, 2004. No contingent consideration was booked at the date of acquisition as the value could not be reasonably determined. No contingent consideration was earned as at December 31, 2002 under this arrangement.

17. COMMITMENTS

($ thousands)

The Corporation and its subsidiaries lease certain equipment, vehicles and office premises. Future minimum lease payments over the next five years are:

2003	$	681
2004		573
2005		323
2006		53
2007		15

18. SEGMENTED INFORMATION

($ thousands)

The Corporation operates as a construction and maintenance services provider in Canada. The Corporation was managed using four operating segments in 2002: Buildings, Industrial General Contracting, Industrial Subcontracting, and Corporate and Other.

Buildings

Buildings is active in the construction of commercial, institutional and light-industrial buildings, principally within Western Canada.

Industrial General Contracting

Industrial General Contracting includes all industrial construction activities undertaken primarily as a general contractor, including fabrication, site work and ongoing maintenance.

Industrial Subcontracting

Industrial Subcontracting includes all industrial activities undertaken primarily as a subcontractor including, in certain instances, subcontracting to our industrial general contracting companies.

Corporate and Other

Corporate and Other includes the Corporation's investment in Lafrentz Road Services Ltd. and all corporate costs not allocated directly to another operating segment.

The accounting policies of the reportable segments are the same as those described in Note 2. The segmented information provided is after the elimination of inter-segment management fees and loan balances and any related interest charges.

Year Ended December 31, 2002	Contract Revenue	Earnings (Loss) from Construction Operations	Depreciation	Total Assets	Capital Expenditures
Buildings	$ 223,722	$ 1,840	$ 651	$ 63,014	$ 644
Industrial General Construction	44,072	(1,053)	800	18,315	2,581
Industrial Subcontracting	43,869	1,547	372	17,604	767
Corporate and Other	–	(2,215)	169	37	162
	$ 311,663	$ 119	$ 1,992	$ 98,970	$ 4,154

Year Ended December 31, 2001	Contract Revenue	Earnings (Loss) from Construction Operations	Depreciation	Total Assets	Capital Expenditures
Buildings	$ 206,219	$ 7,100	$ 545	$ 66,889	$ 988
Industrial General Construction	56,480	4,156	770	22,820	132
Industrial Subcontracting	30,763	406	243	11,757	392
Corporate and Other	–	(2,966)	150	2,384	194
	$ 293,462	$ 8,696	$ 1,708	$ 103,850	$ 1,706

19. EMPLOYEE CONTRIBUTION PLAN

($ thousands)

The Corporation and its subsidiaries have defined contribution plans whereby they match voluntary contributions made by employees to a maximum of 5% of base salary. Contributions made during the year to the plan were $719 (2001 - $512).

20. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, short-term borrowings and any other amounts that will result in future cash outlays.

Credit Risk

The Corporation is exposed to credit risk through accounts receivable. This risk is minimized by the large number of customers in diverse industries and geographic centres. The Corporation performs an assessment of its potential customers as part of its work procurement process, including an evaluation of financial capacity. The Corporation maintains provisions for potential credit losses. Losses over the last five years have averaged 0.2% of revenue.

Interest Rate Risk

The Corporation is exposed to interest rate risk on bank indebtedness and long-term debt as disclosed in Notes 9 and 10.

Fair Value of Financial Instruments

As at December 31, 2002, the carrying value of financial instruments of the Corporation approximate their fair values.

21. SUBSEQUENT EVENTS

($ thousands, except share amounts)

a) On February 7, 2003, the Corporation acquired all the issued and outstanding shares of Laird Electric Inc., an electrical, instrumentation and power-line construction and maintenance contractor based in Fort McMurray, Alberta for $10,650. The purchase price was comprised of $8,425 cash and the issuance from treasury of 826,412 Common Shares of the Corporation. The purchase price may be reduced if Laird management do not remain with the Company or if Laird does not achieve a financial performance objective. In conjunction with the acquisition, the Corporation received $8,000 of secured, floating-rate term debt, and increased its available operating line of credit by $3,500 (Note 9).

b) On February 18, 2003, the Corporation participated in the sale of the assets of Lafrentz Road Services Ltd., in which the Corporation held a 41% equity investment. Proceeds from the sale, net of costs and warranty provisions, are expected to exceed the carrying value of the investment by a modest amount.

c) On February 7, 2003, the Receiver-Manager of JTB Canadian Pork received court approval of a $5,500 offer to sell the JTB assets. The asset sale, which is scheduled to close in April, 2003, but may be extended to May 2003, is expected to result in net proceeds to Stuart Olson sufficient to repay the net receivable owing at December 31, 2002. As part of the transaction, Stuart Olson has agreed to convert $2,000 of its amount receivable into secured financing to the purchaser for a one-year term.

SEVEN YEAR SUMMARY

The following selected unaudited financial data has been derived from Churchill consolidated financial statements, which have been audited by Deloitte & Touche LLP, Chartered Accountants. The information set forth below should be read in conjunction with the Management's Discussion and Analysis and Consolidated Financial Statements and Notes sections of this Annual Report.

Years ended December 31 ($ thousands, except share and per share data and percentages)	2002	2001	2000	1999	1998	1997	1996
INCOME STATEMENT DATA							
Contract Revenue	$ 311,663	$ 293,462	$ 314,078	$ 228,038	$ 210,680	$ 195,491	$ 125,429
Contract Income	20,639	30,123	27,802	18,924	16,684	15,622	10,579
Contract Income (%)	6.6%	10.3%	8.9%	8.3%	7.9%	8.0%	8.4%
Earnings from Construction Operations	119	8,696	11,860	6,450	4,810	4,907	635
Earnings Before Interest, Tax, Depreciation and Amortization	2,786	10,966	13,697	7,821	6,946	6,075	2,588
Interest Expense	248	253	150	307	859	642	609
Depreciation, Depletion and Goodwill Amortization Expense	1,992	1,708	1,502	681	712	659	552
Deferred Loan Cost Amortization Expense	–	–	–	426	144	50	–
Earnings Before Income Taxes	546	9,005	12,045	6,407	5,231	4,724	1,427
Net Earnings	982	5,318	6,690	3,403	2,676	2,574	755
BALANCE SHEET DATA							
Working Capital	$ 21,175	$ 22,504	$ 18,542	$ 15,324	$ 15,653	$ 11,860	$ 6,820
Shareholders' Equity	31,681	30,584	25,342	19,427	16,241	13,469	15,270
Debt plus Preferred Shares, including Dividends in Arrears	362	4,999	1,248	–	4,181	7,643	20,740
Non-Construction Related Assets	1,781	1,699	1,383	1,450	2,162	3,829	5,769
PER COMMON SHARE DATA							
Net Earnings per Share:							
Basic	$ 0.09	$ 0.50	$ 0.63	$ 0.32	$ 0.27	$ 0.18	$ 0.04
Fully Diluted*	0.09	0.47	0.60	0.30	0.23	0.17	0.04
Book Value per Share	2.92	2.89	2.39	1.86	1.58	1.38	0.10
OTHER DATA							
Return on Average Shareholders' Equity	3%	19%	30%	19%	18%	18%	5%
Work in Hand	$ 317,266	$ 269,101	$ 233,246	$ 198,818	$ 155,438	$ 128,013	$ 90,000
COMMON SHARE INFORMATION							
Weighted Average Shares Outstanding	10,773,696	10,567,745	10,704,566	10,514,853	10,004,172	14,350,892	17,731,920
Shares Outstanding at Year End:							
Basic	10,864,040	10,566,974	10,598,774	10,430,174	10,267,074	9,731,074	17,731,920
Basic Shares plus Options	11,941,707	11,997,974	12,018,774	12,157,174	11,777,074	11,711,074	20,484,997
Shares Traded**	4,971,289	3,300,782	4,484,550	3,411,844	3,070,619	3,138,531	285,122
Share Price:							
High	$ 4.91	$ 3.49	$ 2.00	$ 1.75	$ 2.00	$ 0.90	$ 0.16
Low	1.79	1.86	1.25	0.80	0.72	0.08	0.05
Close	2.85	3.10	1.95	1.35	0.78	0.79	0.08

* Earnings per share for 1999, 2000, 2001 and 2002 were calculated using the Treasury Stock Method, while earnings per share for 1996, 1997 and 1998 were calculated using the Imputed Earnings Method. Earnings per Share (fully diluted) for 1999, 2000, 2001 and 2002 calculated using the Imputed Earnings Method would have been: 1999 - $0.29, 2000 - $0.56, 2001 - $0.45, 2002 - $0.09.

** Churchill Common Shares were listed on The Alberta Stock Exchange/Canadian Venture Exchange (CDNX) through January 25, 2000, and commenced trading on the Toronto Stock Exchange (TSX) on December 8, 1999.

The share trading volume and price information set forth above consolidates CDNX and TSX market activity.

DIRECTOR PROFILES

Churchill's Board of Directors ensures appropriate policies and effective procedures are in place for monitoring the performance of senior management, strategic planning, risk management, succession planning and ensuring the integrity of our accounting and information systems. Churchill's approach to corporate governance is outlined in our 2003 Management Information Circular.

PETER F. ADAMS, PH.D., P.ENG.
CHAIRMAN
(EDMONTON) A B C

- President and Managing Director, Canadian Petroleum Institute
- Formerly: Dean of Engineering, University of Alberta; President, Technical University of Nova Scotia; and President, Centre for Frontier Engineering Research

BRIAN W. L. TOD, B.A., LL.B., Q.C
DEPUTY CHAIRMAN
(EDMONTON) B

- Senior Partner, national law firm of Miller Thomson
- Served as a director of several public and private corporations

GARY R. BARDELL, M.SC., MBA, P.ENG
(CALGARY AND EDMONTON)

- President and Chief Executive Officer, The Churchill Corporation (See Executive Profiles on page 47)

ROBERT G. BRAWN, B.SC., P.ENG
(CALGARY) C

- Chairman, Acclaim Energy Inc.
- Director, ATB Financial, Calgary Airport Authority, Parkland Industries Ltd., Forzani Group Ltd. and several private corporations

STANTON K. HOOPER, C.E.T
(EDMONTON) A B C

- President, Stanton Developments Ltd.
- Regent, Gonzaga University

HARRY A. KING, B.A., CA
(VANCOUVER) A

- President and Director, Harking Investments Ltd.
- Director of Cogeco Cable Inc. and several private corporations

BUD W. KUSHNIR, B.SC., P.ENG.
(EDMONTON) A

- Consultant in marketing, operations and general management
- Formerly Senior Vice President, Sherritt Inc.

KIM MCINNES, B.A., M.U.D.
(TORONTO) C

- Executive Vice President and Chief Operating Officer, Ivanhoe Cambridge, a large real estate development and management company
- Formerly President, Retail and Office Management, Markborough Properties Inc.

H. R. (HANK) REID, MBA, P.ENG.
(EDMONTON)

- President and Chief Executive Officer, The Churchill Corporation, from 1990 through October 2002
- Formerly: President, Western Region and Vice President Corporate Development, George Wimpey Canada; President, Carlson Construction; and Corporate Controller, Bovis Corporation

WINSTON D. STOTHERT, M.A.SC., P.ENG.
(VANCOUVER) A B

- Founder and Chairman, Stothert Group, an international engineering, design and construction management firm
- Governor, Business Council of British Columbia
- Chairman, Hillsborough Resources Limited

"relevant experience, useful contacts and extensive service as directors of other public companies"

A Member, Audit Committee

B Member, Human Resources and Compensation Committee

C Member, Corporate Governance, Nominating and Risk Management Committee

EXECUTIVE PROFILES

"A proven management team fully capable of implementing our strategy. Our team combines significant expertise in operations, business development, financial control, risk management and acquisitions"

(1) **GARY R. BARDELL, M.SC., MBA, P.ENG.**
President and Chief Executive Officer, The Churchill Corporation

- Joined Stuart Olson in 1979; progressed through positions in operations, business development and general management to become President of Stuart Olson in 1997
- Became President and Chief Executive Officer of Churchill in October 2002
- Volunteer Chairman, Alberta Construction Association; Director, Canadian Construction Association
- Received the Ted Walden Award in 2003 from the Calgary Construction Association for his lifetime achievements and contributions to the construction industry

(2) **WILLIAM R. MCKENZIE, CMA, MBA, CFA**
Vice President Corporate Development and Corporate Secretary, The Churchill Corporation

- Joined Churchill management in 1999 after serving as a director for eight years
- Responsibilities include mergers and acquisitions, strategic planning, investor relations and corporate secretarial matters
- Sixteen years experience in corporate finance, mergers and acquisitions at a leading publicly traded Canadian merchant bank

(3) **IAN T. MORRIS, CA, CBV**
Vice President Finance and Chief Financial Officer, The Churchill Corporation

- Joined Churchill in 2002
- Responsibilities include treasury, management information systems and controls, risk management and accounting
- Prior financial management experience as Senior Vice President and Chief Financial Officer of a major international oilfield services company; and Senior Vice President and Chief Financial Officer of a leading publicly traded Canadian merchant bank

(4) **L. BRUCE RINTOUL, MBA, P.ENG.**
Vice President, Industrial, The Churchill Corporation

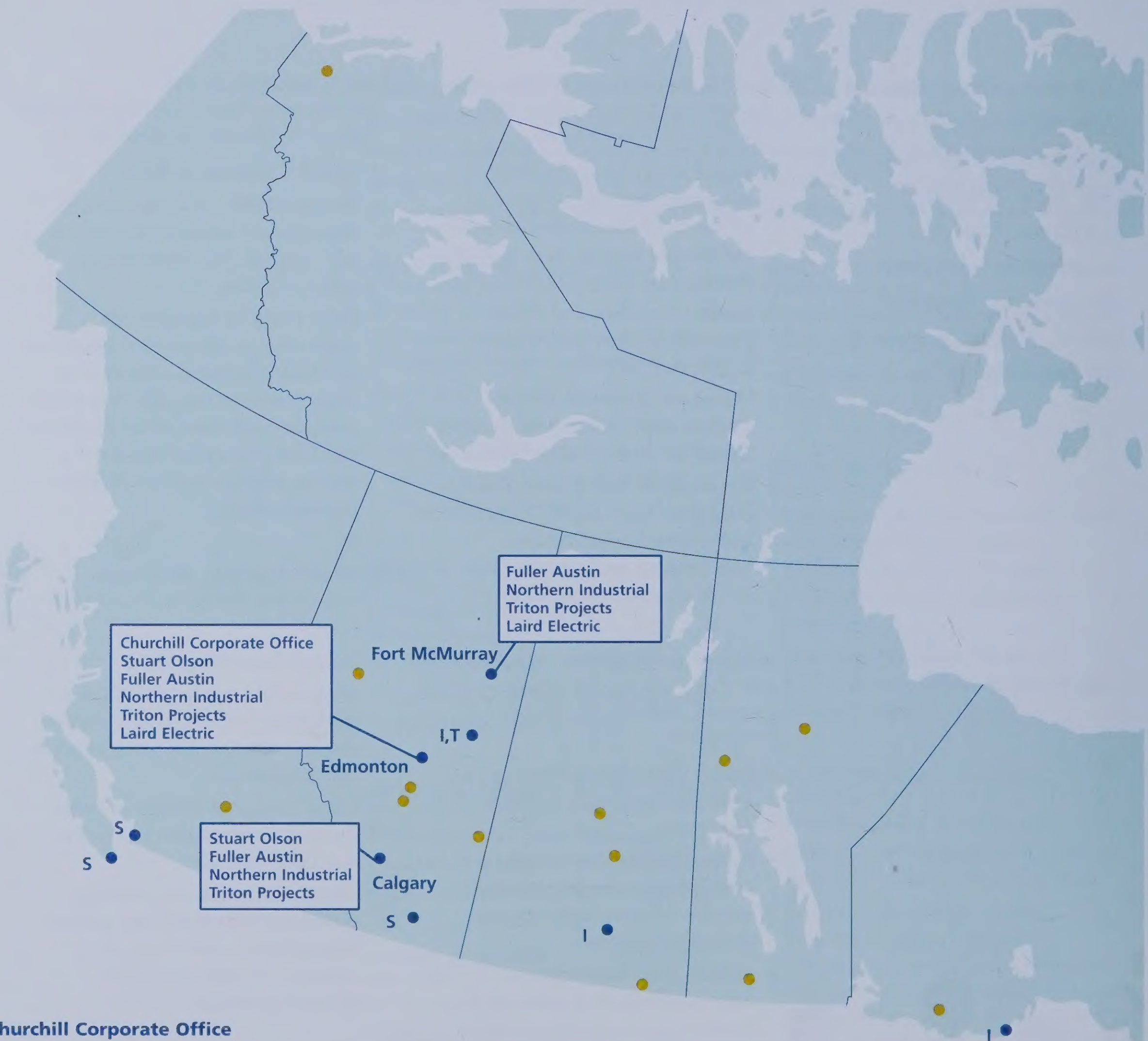
- Joined Churchill in 2000
- Responsible for the growth and profitability of Industrial Division through internal initiatives, alliances and acquisitions
- Chief Executive Officer of Triton Projects, Fuller Austin Insulation and Laird Electric
- Twenty-two years engineering, business development and general management experience in industrial construction and industrial services

(5) **ALLEN W. STOWKOWY, B.SC., P.ENG.**
President, Stuart Olson Construction

- Joined Stuart Olson in 1985
- Progressed through positions in operations and general management to become Senior Vice President in 1997, and President in 2002

(2) (3) (5) (1) (4)

GEOGRAPHIC SCOPE



Churchill Corporate Office

Edmonton

Stuart Olson (S)

Victoria
Vancouver
Calgary
Edmonton
Lethbridge

Fuller Austin (I)
Northern Industrial (I)
Lakehead Insulation (I)

Calgary
Edmonton
Bonnyville
Fort McMurray
Regina
Thunder Bay

Triton Projects (T)

Calgary
Edmonton
Bonnyville
Fort McMurray

Laird Electric (L)

Edmonton
Fort McMurray

Major Project Locations

Inuvik, NWT
Revelstoke, BC
Horse Lake, AB
Red Deer, AB
Ponoka, AB
Primrose, AB
Prince Albert, SK
Cory, SK
Estevan, SK
Portage la Prairie, MB
The Pas, MB
Thompson, MB
Dryden, ON

SHAREHOLDER INFORMATION

ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting of Shareholders will be held at:

2:00 pm on Wednesday, May 14, 2003
in the Devonian Room, Westin Hotel
10135 – 100 Street, Edmonton, Alberta

REGISTRAR AND TRANSFER AGENTS

Inquiries regarding change of address, registered shareholdings, share transfers, duplicate mailings and lost certificates should be directed to:

CIBC Mellon Trust Company
600 The Dome Tower
333 Seventh Avenue S.W.
Calgary, Alberta T2P 2Z1
Phone (403) 232-2400
Fax (403) 264-2100
Email inquiries@cibcmellon.ca
www.cibcmellon.ca
Answerline 1-800-387-0825

INVESTOR RELATIONS

For copies of annual or interim reports and other investor-related information, or if you have any questions, please contact:

Bill McKenzie, CMA, MBA, CFA
Vice President Corporate Development
and Corporate Secretary
The Churchill Corporation
Phone (780) 454-3667

EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: CUQ
CUSIP: 17143D103
Sedar Profile No: 00003704

Certain statements in this Annual Report may constitute "forward-looking statements". Although management of the Corporation believes that its expectations are based upon reasonable assumptions, it can give no assurance its expectations will be achieved. Such forward-looking statements involve risk, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

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www.churchillcorporation.com

INDUSTRIAL CONSTRUCTION AND MAINTENANCE

LAIRD ELECTRIC
Electrical, instrumentation and power-line construction and maintenance
225 MacDonald Crescent
Fort McMurray, Alberta T9H 4B5
Phone (780) 743-2595
Fax (780) 799-0687

TRITON PROJECTS
Heavy-industrial general contracting, fabrication and maintenance
8525 Davies Road
Edmonton, Alberta T6E 4N3
Phone (780) 485-6700
Fax (780) 485-6719

FULLER AUSTIN INSULATION
Insulation, siding, fireproofing and maintenance
16646 – 114 Avenue
Edmonton, Alberta T5M 3R8
Phone (780) 452-1701
Fax (780) 452-4129

NORTHERN INDUSTRIAL INSULATION CONTRACTORS
Insulation, siding, fireproofing, and maintenance
17408 – 106A Avenue
Edmonton, Alberta T5S 1E6
Phone (780) 483-1850
Fax (780) 484-0004

BUILDING CONSTRUCTION

STUART OLSON CONSTRUCTION
Construction management, design-build and general contracting
Suite 360, 1121 Centre Street N.W.
Calgary, Alberta T2E 7K6
Phone (403) 520-6565
Fax (403) 230-5323

AUDITORS
Deloitte&Touche LLP
Chartered Accountants

LEGAL COUNSEL
Miller Thomson LLP
Borden Ladner Gervais LLP

PRINCIPAL BANK
The Bank of Nova Scotia

BONDING AND INSURANCE
AXA Pacific Insurance Company
Aon Reed Stenhouse Inc.

the Churchill Corporation

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Edmonton, Alberta T5L 2H7
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